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C O N F I D E N T I A L SECTION 01 OF 06 RIYADH 001771

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SUBJECT: THE AL SAUD AND CHALLENGES TO STABILITY

CLASSIFIED BY CHARGE D'AFFAIRES CHARLES H. BRAYSHAW.
REASON: 1.5 (B) AND (D).

SUMMARY

¶1. (C) AT PRESENT, SAUDI ARABIA ENJOYS AT LEAST SUPERFICIAL STABILITY. THERE IS NO DEBILITATING DISUNITY AMONG SENIOR AL SAUD PRINCES, REGIME CRITICS HAVE BEEN EXILED OR MARGINALIZED ABROAD AND CO-OPTED OR MUZZLED AT HOME, AND A LARGELY APOLITICAL CITIZENRY SHOWS NO INCLINATION TO DEMAND GREATER PARTICIPATION IN PUBLIC LIFE. FACTORS SUCH AS THE HISTORICAL CONTINUITY OF AL SAUD RULE, A LONG TRADITION OF OBEDIENCE TO THE RULER AND A CORRESPONDING ABHORRENCE OF DISORDER, AND A DEARTH OF POLITICAL ALTERNATIVES BODE WELL FOR CONTINUED STABILITY AND REGIME SURVIVAL.

¶2. (C) IN THE INTERMEDIATE/LONGER-TERM, HOWEVER, THE MAINTENANCE OF STABILITY WILL DEPEND LARGELY ON HOW THE AL SAUD DEAL WITH A NUMBER OF FESTERING ECONOMIC, POLITICAL AND SOCIAL PROBLEMS, AMONG THEM: A LOW-GROWTH ECONOMY OVERLY DEPENDANT ON OIL; THE EXPECTATIONS AND ASPIRATIONS OF AN EXPLODING YOUTH POPULATION; AN EMERGING STRUGGLE BETWEEN A MINORITY OF ISLAMIC CONSERVATIVES AND A MORE MODERATE MAJORITY OVER THE KINGDOM'S DIRECTION; AND LATENT REGIONAL AND TRIBAL TENSIONS. WHILE TOP LEVEL SAG LEADERS APPEAR TO BE AWARE OF THESE CHALLENGES AND ARE MOVING IN THE RIGHT DIRECTION TO CONFRONT THEM, IT REMAINS TO BE SEEN WHETHER THEIR MEASURES WILL SUFFICE IN PACE AND SCOPE. OTHER SENIOR LEADERS ARE ENGAGED IN POLICIES OR BEHAVIOR THAT COULD UNDERMINE STABILITY.

¶3. (C) AT ALL TIMES, THE "WILD CARD" IN ANY ANALYSIS OF SAUDI STABILITY IS ROYAL FAMILY DYNAMICS. WHILE THE CONTINUED REIGN OF 80 YEAR-OLD KING FAHD CASTS AN OUTWARD APPEARANCE OF STABILITY AND CONTINUITY, IT IS ACTUALLY A SOURCE OF UNCERTAINTY AND POTENTIAL INSTABILITY. IN THE NEAR/INTERMEDIATE-TERM, THE KINGDOM WILL LIKELY EXPERIENCE AT LEAST ONE ROYAL SUCCESSION, THE RESULTS OF WHICH COULD THREATEN THE INDISPENSABLE ELEMENT OF AL SAUD VIABILITY: ROYAL FAMILY UNITY. END SUMMARY.

ROYAL DYNAMICS

¶4. (C) LARGELY INCAPACITATED AND A SHADOW OF HIS FORMER SELF, KING FAHD - AND MORE IMPORTANTLY, FAHD'S

SONS AND COURT SYCOPHANTS - HAVE NO APPARENT INTEREST IN HIS ABDICATION. FAHD'S STUBBORN GRASP OF THE RULING SCEPTER (AND, INDEED, OF LIFE ITSELF) IS IMPEDING THE TRANSITION PROCESS AND MAY HAVE NEGATIVE FUTURE CONSEQUENCES FOR AL SAUD RULE. (A SAUDI JOKE HAS IT THAT FAHD IS CALLED "THE CONQUEROR OF DEATH" BECAUSE THE ANGEL OF DEATH FEARS TO APPROACH HIM.)

15. (C) IN A NARROW SENSE, FAHD'S CONTINUED PRESENCE ON THE THRONE DEPRIVES CROWN PRINCE ABDULLAH OF THE FULL AUTHORITY OF A SAUDI MONARCH, THUS INHIBITING HIS ABILITY TO IMPLEMENT REFORMS. AMONG SENIOR SONS OF THE LATE KING ABD AL-AZIZ, ABDULLAH IS PROBABLY THE BEST QUALIFIED TO LEAD THE KINGDOM THROUGH CHANGING TIMES. HE POSSESSES GREATER POPULAR CREDIBILITY AND A MORE PROGRESSIVE, PRAGMATIC OUTLOOK THAN POWERFUL HALF-BROTHERS DEFENSE MINISTER SULTAN OR INTERIOR MINISTER NAIF. EVEN IF HE WERE KING, HOWEVER, ABDULLAH WOULD BE OBLIGED TO SLOWLY AND CAREFULLY DEVELOP CONSENSUS FOR HIS MODEST REFORM INITIATIVES: ABDULLAH'S CURRENT CIRCUMSTANCES ONLY INCREASE HIS BURDEN OF CONSENSUS-BUILDING.

16. (C) IN A BROADER SENSE, THE CONTINUED PRESENCE OF THE 80 YEAR-OLD KING FAHD ADDS AN ELEMENT OF UNCERTAINTY INTO THE SUCCESSION PROCESS AND MAY HINDER A SMOOTH TRANSITION AFTER HIS EVENTUAL PASSING. AFTER ALL, 78 YEAR-OLD ABDULLAH AND 77 YEAR-OLD SULTAN (THE APPARENT THIRD IN LINE) ARE ONLY SLIGHTLY YOUNGER THAN FAHD AND BOTH SUFFER FROM AILMENTS COMMON TO SEPTUAGENARIANS LONG-ACCUSTOMED TO A SEDENTARY, LUXURIOUS LIFESTYLE (ABDULLAH ALSO WORKS LONG HOURS AND LABORS UNDER CONSIDERABLE STRESS). IT IS POSSIBLE THAT FAHD COULD REMAIN IN PLACE RIGHT THROUGH THEIR REMAINING PRIME WORKING YEARS AND POSSIBLY EVEN OUTLIVE ONE OR BOTH. SHOULD FAHD SURVIVE ABDULLAH, HE WOULD HAVE THE EXCLUSIVE RIGHT UNDER THE 1992 BASIC LAW TO APPOINT A NEW CROWN PRINCE, AND FAHD'S SONS WOULD PROBABLY HAVE A MAJOR ROLE IN THE DECISION-MAKING PROCESS. WHILE CONVENTIONAL WISDOM HOLDS THAT FAHD WOULD LIKELY TAP ONE OF HIS FULL "SUDAYRI SEVEN" BROTHERS (SULTAN, DEPUTY DEFENSE MINISTER ABD AL-RAHMAN, NAIF AND RIYADH GOVERNOR SALMAN, IN ORDER OF SENIORITY), IT IS AT LEAST REMOTELY POSSIBLE THAT HE COULD APPOINT ONE OF HIS SONS, PERHAPS HIS YOUNGEST SON, 28 YEAR-OLD ABD AL-AZIZ BIN FAHD, CURRENT MINISTER OF STATE, AS CROWN PRINCE.

17. (C) TO A LARGE EXTENT, THE AL SAUD ARE MASTERS OF THEIR OWN RULING DESTINY AND ARE PROBABLY MOST VULNERABLE TO SELF-INFLICTED THREATS: THE DISINTEGRATION OF UNITY AMONG SENIOR ROYAL FAMILY MEMBERS; CONDUCT BY THE KING OR SENIOR PRINCES WHICH IS WIDELY PERCEIVED AS UN-ISLAMIC; AND PERCEIVED EGREGIOUS ROYAL CORRUPTION AND/OR NEGLECT OF THE PUBLIC WEAL, PARTICULARLY IF ECONOMIC TIMES ARE DIFFICULT. THESE VULNERABILITIES ARE LOW UNDER CURRENT CONDITIONS AND IN THE CASE OF AN ABDULLAH KINGSHIP. CREDIBLE RUMORS OF CORRUPT PRACTICES, HOWEVER, HAVE LONG SWIRLED ABOUT DEFENSE MINISTER SULTAN AND HIS ELDEST SON KHALID, THUS INCREASING THE PROSPECTS FOR INSTABILITY DURING A POSSIBLE SULTAN REIGN. ALL THREE VULNERABILITIES COULD BE EXPOSED IF FAHD WERE TO TRY TO PLACE ONE OF HIS OWN SONS ON THE THRONE, NONE OF WHOM POSSESS RESPECT EITHER WITHIN THE ROYAL FAMILY OR AMONG THE PUBLIC. THIS IS PARTICULARLY TRUE OF ABD AL-AZIZ, WHO IS WIDELY CONSIDERED TO BE AT THE BOTTOM OF THE ROYAL BARREL IN TERMS OF PERSONAL PROBITY AND DECORUM.

THE ISLAMIC POLITY AND LACK OF INSTITUTIONS

18. (C) AS ONE OF THE TWO BEDROCK COMPONENTS OF THE SAUDI RULING CONTRACT, THE AL SAUD ACQUIRED LEGITIMACY IN EXCHANGE FOR ENFORCEMENT OF SHARI'A LEGAL/SOCIAL STRICTURES, CUSTODIANSHIP OF ISLAM'S HOLIEST SHRINES,

AND ALLOWING THE ISLAMIC ESTABLISHMENT TO DEFINE SOCIAL MORES AND CONTROL SOCIAL AND EDUCATIONAL INSTITUTIONS. REGIME ACCOMMODATION OF THE VIEWS OF RELIGIOUS CONSERVATIVES HAS PROVEN TO BE A RELATIVELY LOW-COST PROPOSITION, AND SOME BELIEVE THAT THE SAG CYNICALLY ALLOWS THE ISLAMIC ESTABLISHMENT TO DIVERT PUBLIC ATTENTION TO RELATIVELY TRIFLING MATTERS (E.G. THE ALLEGED ANTI-ISLAMIC NATURE OF POKEMON PRODUCTS, THE APPROPRIATE SPECIFICATIONS FOR WOMEN'S ABAYAS, ETC.) LEST IT FOCUS ON VITALLY IMPORTANT TOPICS SUCH AS THE REGIME'S ABILITY TO DELIVER JOBS OR EVEN ADEQUATE SUPPLIES OF POTABLE WATER IN THE FUTURE. HOWEVER, THIS APPARENT BENEFIT HAS CONTRIBUTED TO THE RANKS OF GRADUATING YOUTH WITH NOTHING BUT RELIGIOUS TRAINING WHO ARE ILL-PREPARED TO CONTRIBUTE TO A MODERNIZING ECONOMY.

¶9. (C) STILL, THE AL SAUD, MOST OF WHOM PURSUE A MORE LIBERAL, EVEN DISSOLUTE, LIFESTYLE IN PRIVATE, CAN ILL AFFORD TO BE PERCEIVED AS LESS DEVOUT OR ZEALOUS THAN THEIR HAND-PICKED ISLAMIC LEADERS AND SCHOLARS: THUS, WE SEE LITTLE NEAR OR INTERMEDIATE TERM SAG MOVEMENT ON SOCIAL ISSUES WHICH CARRY SIGNIFICANT EMOTIONAL BAGGAGE SUCH AS WOMEN'S RIGHTS. THE AL SAUD'S INDULGENCE OF THE RELIGIOUS ESTABLISHMENT ALSO CONTRIBUTES TO THE SLOW PACE OF ECONOMIC REFORM, SINCE THE 'ULAMA OPPOSE OPENING THE SAUDI ECONOMY, FEARING THAT IT WILL LEAD TO GREATER FOREIGN, PARTICULARLY WESTERN, INFLUENCE.

¶10. (C) THE SEEDS OF FRICTION WITHIN SAUDI SOCIETY ARE GROUNDED IN CONFLICTING VIEWS ABOUT THE KINGDOM'S MORAL DIRECTION IN GENERAL, AND THE PERVASIVE SPREAD OF WESTERN (PRIMARILY AMERICAN) CULTURE AND WHAT SOME SAUDIS PERCEIVE AS THE CONCOMITANT EROSION OF ISLAMIC AND TRADITIONAL ARABIAN VALUES IN PARTICULAR. SOME SAUDI CONTACTS HAVE SUGGESTED THAT THERE IS AN ONGOING EFFORT BY A VOCAL, INFLUENTIAL, AND HIGHLY-MOTIVATED RELIGIOUS CONSERVATIVE MINORITY TO PLACE LIKE-MINDED PEOPLE IN AS MANY POSITIONS OF DAY-TO-DAY ADMINISTRATIVE, EDUCATIONAL, AND SOCIAL AUTHORITY AS POSSIBLE BEFORE A RELATIVELY MODERATE (BUT SILENT) MAJORITY GAINS ASCENDANCY. IF THIS IS INDEED THE CASE, A SITUATION SOMEWHAT AKIN TO THE PRESENT ENVIRONMENT IN IRAN COULD DEVELOP, WHERE A RELATIVELY MODERATE AND LARGELY YOUTHFUL MAJORITY STRUGGLES WITH AN ENTRENCHED CONSERVATIVE MINORITY FOR CONTROL OF THE COUNTRY'S DIRECTION.

¶11. (C) ALTHOUGH THE KINGDOM'S INCREASING URBANIZATION (ACCORDING TO WORLD BANK STATISTICS, 85 PERCENT OF SAUDIS LIVE IN TOWNS OR CITIES AND THE PERCENTAGE IS GROWING) HAS SOMEWHAT DIMINISHED THE IMPORTANCE OF TRIBAL IDENTITY, IT REMAINS A POWERFUL FACTOR IN SAUDI SOCIETY, AND INTER-TRIBAL FRICTION COULD BECOME A SOURCE OF FUTURE INSTABILITY, PARTICULARLY IN TIMES OF ECONOMIC HARDSHIP. A POTENTIALLY GREATER SOURCE OF INSTABILITY IS REGIONAL IDENTITY AND A WIDESPREAD PERCEPTION THAT THE LEAST PRODUCTIVE AND ECONOMICALLY-VIABLE AREA OF THE KINGDOM, THE ARID AND CENTRAL NEJD/QASSIM REGION (HOME OF THE AL SAUD, SUCKS UP THE OIL WEALTH OF THE EASTERN REGION AND THE TRADING WEALTH OF THE WESTERN HIJAZ REGION. IN ADDITION, THE SOUTHERN PROVINCES OF NAJHRAN, JIZAN, AND ASIR, SEIZED FROM YEMEN IN THE EARLY 1930'S, HAVE NEVER BEEN EFFECTIVELY INTEGRATED INTO THE SAUDI MAINSTREAM, EITHER ECONOMICALLY OR CULTURALLY. AGAIN, THE TREND OF STEADILY DECLINING LIVING STANDARDS HAS THE POTENTIAL TO FUEL LATENT REGIONAL RESENTMENTS, PARTICULARLY IF SAG LEADERS CONTINUE TO FUNNEL INCREASINGLY SCARCE RESOURCES DISPROPORTIONATELY TO THE NEJD.

¶12. (C) THE AL SAUD HAVE TAKEN STEPS TO ESTABLISH INSTITUTIONS SUCH AS THE SHURA COUNCIL WHICH HOLD THE POTENTIAL TO ALLOW GREATER PUBLIC PARTICIPATION IN GOVERNANCE. AT PRESENT, HOWEVER, SUCH INSTITUTIONS HAVE NO SIGNIFICANT VOICE IN SAUDI PUBLIC LIFE. IN

ADDITION, THERE IS NO "CIVIL SOCIETY" AS THE CONCEPT IS GENERALLY UNDERSTOOD. COBBLED TOGETHER FROM DISPARATE TRIBES AND INFLUENTIAL CLANS 80 YEARS AGO, SAUDI SOCIETY IS MADE UP OF A PATCHWORK OF REGIONAL AND TRIBAL INTERESTS HELD TOGETHER BY THE POWER OF THE AL SAUD, AND THE MODERNIZING ACHIEVEMENTS OF THE LAST FIFTY YEARS, AND LITTLE ELSE. PROFESSIONAL SOCIETIES, LABOR ORGANIZATIONS, AND INTEREST GROUPS ARE GENERALLY EITHER CREATED BY THE GOVERNMENT OR BANNED COMPLETELY. WHILE WE DO NOT CURRENTLY DETECT A GROUNDSWELL OF INTEREST IN POLITICAL PARTICIPATION AMONG THE MOSTLY APOLITICAL SAUDI PUBLIC, FACTORS SUCH AS A NEW-FOUND AVAILABILITY OF OUTSIDE SOURCES OF INFORMATION AND COMMUNICATION COULD CHANGE THIS, PARTICULARLY IF COMBINED WITH AN ECONOMIC DECLINE AND ATTENDANT FRUSTRATIONS.

THE DEMOGRAPHIC TIME BOMB

¶13. (C) THE AL SAUD'S PUBLIC DISTRIBUTION OF A SIGNIFICANT PORTION OF THE KINGDOM'S WEALTH IN RETURN FOR THE CITIZENRY'S OBEDIENCE IS THE OTHER COMPONENT OF THE SAUDI RULING CONTRACT. THIS DISTRIBUTION IS FACILITATED BY THE CONCENTRATION OF THE ECONOMY IN THE PETROLEUM SECTOR. HOWEVER, AS CROWN PRINCE ABDULLAH FAMOUSLY WARNED TWO AND A HALF YEARS AGO, THE EASY YEARS HAVE PASSED.

¶14. (U) THE MOTIVATION FOR THE SAG'S ECONOMIC REFORM EFFORT IS CLEAR. WITH A POPULATION GROWTH RATE OF CLOSE TO 4% DURING MUCH OF THE LAST 20 YEARS AND OVER HALF THE SAUDI POPULATION UNDER THE AGE OF 18, SAUDI ARABIA IS FACING A DEMOGRAPHIC TIME BOMB. (THE SAG ESTIMATES THAT THE RATE OF POPULATION GROWTH HAS RECENTLY DROPPED TO AROUND 3%.) UNEMPLOYMENT FIGURES FOR WORKING AGE SAUDI MALES RANGE FROM THE OFFICIAL RATE OF 14% TO A SAUDI NEWSPAPER COMMENTATOR'S ESTIMATE OF 46%. IN ANY CASE, NEITHER WOMEN NOR UNDEREMPLOYMENT ARE TAKEN INTO ACCOUNT. BECAUSE OF THE VOLATILITY OF OIL PRICES, THE OIL AND PETROCHEMICAL SECTORS EXPERIENCE WIDE FLUCTUATIONS IN GROWTH AND ARE HEAVILY CAPITAL INTENSIVE. THUS, THE GOVERNMENT HAS PINNED ITS HOPES ON THE NON-OIL, PRIVATE SECTOR TO PROVIDE JOBS FOR THE 100,000 SAUDI MALE JOB SEEKERS (MANY WITHOUT POST SECONDARY EDUCATION) ENTERING THE LABOR MARKET EVERY YEAR. (CURRENTLY, ONLY ABOUT 50,000 NEW EMPLOYEES PER YEAR ARE HIRED, ALMOST ALL BY THE SAG.) THE CROWN PRINCE RECOGNIZES THAT THE GOVERNMENT CAN NO LONGER AFFORD TO ACT AS EMPLOYER OF LAST RESORT OR PROVIDE FREE MEDICAL CARE AND EDUCATION TO ALL SAUDIS.

¶15. (U) THE GOVERNMENT'S PURPOSE OVER THE PAST THREE YEARS IN SEEKING TO MODERNIZE THE ECONOMY BY REVISING MOST OF THE BASIC ECONOMIC AND COMMERCIAL LAWS, ACCELERATING EFFORTS TO JOIN THE WORLD TRADE ORGANIZATION, AND OFFERING MAJOR INTERNATIONAL OIL COMPANIES THE OPPORTUNITY TO INVEST IN THE GAS SECTOR IS ALSO CLEAR -- TO SPUR ECONOMIC GROWTH AND DEVELOPMENT. THE EXPECTATION IS THAT AN OPEN, LIBERAL ECONOMY WILL ATTRACT FOREIGN INVESTMENT AND, EVEN MORE IMPORTANT, BRING SAUDI OVERSEAS CAPITAL (ESTIMATED AT BETWEEN \$600-800 BILLION) HOME. (NOTE: AS A POINT OF REFERENCE, 2000 SAUDI GDP WAS USD 173 BILLION.) THE SAUDIS HOPE THIS WILL GENERATE PRIVATE SECTOR GROWTH AND CREATE JOBS.

SO LITTLE, SO LATE

¶16. (C) THE PACE OF REFORM IN SAUDI ARABIA IS SLOW AND THE RESULTS IN TERMS OF NEW INVESTMENT AND JOB CREATION EVEN SLOWER TO MATERIALIZE. THE CROWN PRINCE'S GAS INITIATIVE, LAUNCHED IN SEPTEMBER 1998, IS MOVING FORWARD PRETTY MUCH ON SCHEDULE, BUT THE

GOVERNMENT AND THE INTERNATIONAL OIL COMPANIES ARE NOT EXPECTED TO REACH AGREEMENT ON THE COMMERCIAL TERMS OF THE PROJECTS UNTIL THE END OF THIS YEAR OR EARLY NEXT YEAR. WITH ARAMCO'S PROVEN GAS RESERVES OFF LIMITS, THE OIL COMPANIES WILL HAVE TO FIND GAS TO RUN THE DESALINATION AND POWER PLANTS THEY HAVE COMMITTED TO BUILD. THE THREE CONSORTIA OF INTERNATIONAL OIL COMPANIES THAT WERE SELECTED TO PARTICIPATE IN THE GAS INITIATIVE ARE EXPECTED TO INVEST \$25 BILLION DOLLARS OVER A TEN-YEAR PERIOD. MUCH OF THAT INVESTMENT MAY BE DELAYED UNTIL THE INVESTORS FIND AND DEVELOP THAT GAS. SAUDI ARABIA IS UNLIKELY TO SEE ANY OF THAT MONEY UNTIL SOMETIME NEXT YEAR.

¶17. (C) THE PROCESS OF OVERHAULING SAUDI ARABIA'S LAWS IS A DIFFICULT AND TIME-CONSUMING PROCESS. PROGRESS HAS BEEN MADE -- A NEW FOREIGN DIRECT INVESTMENT LAW WAS ADOPTED, THE ELECTRICITY SECTOR WAS RESTRUCTURED, A PRIVATIZATION STRATEGY WAS ADOPTED, TOURIST VISAS ARE BEING GRANTED, FOREIGN INVESTORS CAN INVEST IN THE SAUDI STOCK MARKET THROUGH MUTUAL FUNDS MANAGED BY LOCAL BANKS, TARIFFS ON MOST IMPORTS WERE CUT TO 5%, AND NEW REGULATIONS FOR THE TELECOMMUNICATIONS SECTOR WERE ADOPTED. MUCH MORE REMAINS TO BE DONE -- NEW LAWS COVERING CAPITAL MARKETS, TAXES, COMPANY LAW, AGENCY LAW, LABOR RELATIONS, AND IPR ARE ALL UNDER PREPARATION. WE ARE FINDING, HOWEVER, THAT EVEN WHEN A NEW POLICY OR LAW IS ADOPTED, THE IMPLEMENTATION MAY NOT LIVE UP TO EXPECTATIONS. THE NEW FOREIGN DIRECT INVESTMENT LAW HAS NOT RENDERED THE INVESTMENT PROCESS APPRECIABLY MORE TRANSPARENT OR INVESTOR FRIENDLY. HOPES WERE HIGH FOR PRIVATIZATION AS A PATH TO ECONOMIC REFORM A YEAR AGO, BUT ANY POSSIBILITIES OF PRIVATIZATION (E.G., THE SAUDI TELECOM COMPANY OR SAUDI ARABIA AIRLINES) ARE YEARS AWAY.

¶18. (C) THE MOMENTUM FOR WTO ACCESSION APPEARS TO BE FLAGGING. ALTHOUGH WE BELIEVE THE CROWN PRINCE'S COMMITMENT TO GAINING WTO MEMBERSHIP REMAINS FIRM, THE DIFFICULTY OF MOVING LEGISLATION AND THE NECESSARY IMPLEMENTING REGULATIONS THROUGH THE SYSTEM HAS SLOWED THINGS TO A CRAWL. THE CROWN PRINCE'S APPOINTMENT OF PRINCE NAIF TO OVERSEE ACCESSION NEGOTIATIONS DOES NOT APPEAR TO HAVE GALVANIZED THE BUREAUCRACY. THE ONLY MAJOR PIECE OF LEGISLATION APPROVED BY THE COUNCIL OF MINISTERS SINCE THE LAST WTO ACCESSION WORKING PARTY MEETING IN OCTOBER 2000 WAS THE NEW TELECOM REGULATIONS APPROVED IN MAY. KEY LAWS AND REGULATIONS DESIGNED TO BRING THE SAUDI TRADE AND INVESTMENT REGIME INTO COMPLIANCE WITH WTO STANDARDS ARE MONTHS AWAY FROM COMPLETION.

IS IT ENOUGH?

¶19. (C) SAUDI ARABIA SHOULD BE COMMENDED FOR ITS GOOD INTENTIONS. BUT SHOULD SAUDI ARABIA BECOME A WTO MEMBER AND IMPLEMENT THE BULK OF THE REFORM PROGRAM AS CURRENTLY ENVISAGED, IT WOULD STILL FACE SERIOUS ECONOMIC CHALLENGES. IT IS DOUBTFUL WHETHER THE PACE AND SCOPE OF REFORMS WILL BE SUFFICIENT TO ATTRACT SIGNIFICANT SAUDI OR FOREIGN INVESTMENT INTO THE NON-OIL PRIVATE SECTOR AND GENERATE THE ECONOMIC GROWTH NEEDED TO REDUCE UNEMPLOYMENT. THERE ARE FUNDAMENTAL ECONOMIC DEVELOPMENT ISSUES THESE REFORMS AND WTO MEMBERSHIP DO NOT AND WILL NOT ADDRESS. THESE INCLUDE THE SIGNIFICANT AMOUNT OF OIL REVENUES THAT NEVER MAKE IT TO THE MINISTRY OF FINANCE FOR INCLUSION IN THE GOVERNMENT BUDGET; THE LACK OF A MODERN, LEGAL FRAMEWORK FOR SETTLING COMMERCIAL DISPUTES; THE LACK OF A SAUDI INCOME TAX (PERSONAL OR CORPORATE) TO PROVIDE THE GOVERNMENT WITH A MORE STABLE REVENUE BASE; THE GOVERNMENT'S POLICY OF REQUIRING BUSINESSES TO HIRE SAUDIS WHO, IN MANY CASES, LACK SKILLS AND MOTIVATION; FEAR OF ARBITRARY, CONFISCATORY ACTIONS BY THE ROYAL FAMILY; AND CORRUPTION IN GOVERNMENT

PROCUREMENT. ALL THESE FACTORS DRIVE WEALTHY SAUDIS TO INVEST OVERSEAS LIMITING THE NUMBER OF FOREIGN INVESTORS WHO ARE WILLING TO PUT MONEY INTO SAUDI ARABIA.

CONCLUSION

120. (C) THE AL SAUD'S ABILITY TO FULFILL THE EXPECTATIONS OF THE KINGDOM'S GROWING YOUTH POPULATION WILL BE A KEY FACTOR IN OVERALL STABILITY. THE PUSH TO EMPLOY SAUDIS IN PLACE OF THE SEVEN MILLION FOREIGN WORKERS MAY HELP, IN SPITE OF THE LACK OF BASIC QUALIFICATIONS FOR EMPLOYMENT WHICH PERVADES THE YOUNGER GENERATION. WITH FALTERING AND UNEVEN PUBLIC SUPPORT FOR WTO ACCESSION AND ECONOMIC REFORMS AND THE STILLBORN PROGRAM TO PROVIDE VOCATIONAL TRAINING, THE AL SAUD FAMILY FACES MAJOR CHALLENGES IN DELIVERING ON THE ECONOMIC PART OF THE RULING BARGAIN, WHICH IN TURN COULD HAVE A MAJOR IMPACT ON STABILITY.

121. (C) STILL, ALL BUT A DWINDLING NUMBER OF ELDERLY SAUDIS HAVE KNOWN NOTHING BUT AL SAUD RULE, AND IT IS PROBABLY DIFFICULT FOR MOST SAUDIS TO IMAGINE LIFE WITHOUT AN AL SAUD FAMILY MEMBER ON THE THRONE. BARRING FALLOUT OVER SUCCESSION SURPRISES OR A CATASTROPHIC REGIONAL POLITICAL UPHEAVAL, THE ROYAL FAMILY SHOULD BE ABLE TO MAINTAIN ABSOLUTE CONTROL OF THE KINGDOM FOR THE FORESEEABLE FUTURE. HOWEVER, FACED WITH A SITUATION WHERE THEY MUST GRANT MORE FREEDOM TO FOSTER PROGRESS, BOTH ECONOMIC AND SOCIETAL, THE AL SAUD RUN THE RISK THAT THIS SAME FREEDOM WILL UNDERMINE THEIR MUCH-CHERISHED DISCIPLINE AND CONFORMITY. THE AL SAUD'S ABILITY TO ADAPT TO CHANGING CIRCUMSTANCES WILL BE PUT TO THE TEST AS THE FRUITS OF RAPID POPULATION GROWTH, POOR ECONOMIC PERFORMANCE, AND CODDLING OF THE ISLAMIC ESTABLISHMENT BECOME EVER APPARENT.

122. (U) THIS CABLE FULFILLS A REQUIREMENT OF POST'S REPORTING PLAN.

BRAYSHAW